Origin Bancorp, Inc.
Fourth Quarter 2023
Earnings Call - Transcript

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Evercall Moderator

Good morning, and welcome to the Origin Bancorp, Inc. Fourth Quarter Earnings Conference Call. Please note, this event is being recorded. I would now like to turn the conference call over to Chris Reigelman, Director of Investor Relations. Please go ahead.

Chris Reigelman

Good morning and thank you for joining us today. We issued our earnings press release yesterday afternoon, a copy of which is available on our website, along with a slide presentation that we will refer to during this call.

Please refer to page 2 of our slide presentation, which includes our safe harbor statements regarding forward looking statements and use of non-GAAP financial measures. For those joining by phone, please note the slide presentation is available on our website at www.ir.origin.bank. Please also note that our safe harbor statements are available on page 6 of our earnings release filed with the SEC yesterday.

All comments made during today's call are subject to the safe harbor statements in our slide presentation and earnings release.

I'm joined this morning by Origin Bancorp's Chairman, President & CEO, Drake Mills; President and CEO of Origin Bank, Lance Hall; our Chief Financial Officer, Wally Wallace; Chief Risk Officer, Jim Crotwell; our Chief Accounting Officer, Steve Brolly; and our Chief Credit and Banking Officer, Preston Moore. After the presentation, we will be happy to address any questions you may have. Drake, the call is yours.

Drake Mills

Thanks Chris. As I look back on 2023, the realization that our people successfully navigated one of the most stressful years in my career provides me with confidence that Origin has the team, infrastructure, footprint, and deposit franchise to be highly successful in the future.

I have often said that we don't manage our company quarter-to-quarter, and we have never backed down from capitalizing on the right opportunities and investing for future success. This quarter was no exception, and we are excited about entering our newest markets in South Alabama and the Florida Panhandle. Nate Sommer will lead this new Southeast Market. He and his team have worked together for more than 15 years, building dynamic relationships throughout that region. South Alabama and the Florida Panhandle offer tremendous opportunities for Origin. Our culture, our focus on the client experience, and our geographic-management model is what has attracted highly talented bankers to Origin. I believe the combination of this team and our way of doing business will allow us to grow market share and impact communities in a powerful way.

Throughout 2023, we communicated our strategy of staying under $10B in assets, and we were successful with that strategy, finishing the year at $9.7B. We anticipate crossing this important threshold in 2024. We have invested in technology, processes and people in preparation for the new regulatory environment. While there is expense associated with this growth, we are committed to building this company for long-term success.

I continue to be optimistic about where we are as a company. The markets we serve in Texas, Louisiana and Mississippi have been resilient, and the investments we are making in South Alabama and the Florida Panhandle create additional opportunities to add meaningful long-term shareholder value. Now, I'll turn it over to Lance.

Lance Hall

Thanks and good morning. As Drake mentioned, I'm excited about this team of dynamic bankers that will create the new Southeast Market with Origin offices planned in Mobile, Alabama and Fort Walton Beach, Florida. This new geographic market will partner alongside our existing markets of Houston, North Texas, East Texas, Louisiana and Mississippi. Similar to our organic entries into Houston, Dallas and Fort Worth, we have confidence that our Southeast market will be a driver of profitable growth.

I am personally excited about this opportunity for several reasons. First, I look forward to introducing the Origin brand and way of doing business to Alabama and Florida. These are dynamic and complementary growth markets and will allow us to further diversify our client base and loan portfolio. Secondly, I am honored that such experienced and exceptional bankers would choose to be part of Origin's growth story. This is a strong example of how our corporate culture is tangible and valuable. Origin is attractive to bankers because of our culture, because of our franchise dynamics, because of our entrepreneurial spirit, and because of our geographic-management model. This Southeast Market team is going to be extremely valuable to Origin as we continue to grow. I firmly believe that our new teammates will be great culture fits, great producers and great partners.

Turning to 2023, deposits remained the primary focus of our bankers throughout the year, and our results from last quarter reflect that focus. Excluding brokered deposits, which we intentionally reduced as we managed below 10B, deposits increased 1.3% compared to the previous quarter. I'm proud of our team and how they are expanding relationships to provide value to our clients, despite the challenging interest rate environment. Looking forward, I am confident that we can grow our deposits in the mid-single digit range in 2024, which will allow us to fund loans in the mid-single digits. As we've said consistently, deposit growth will be a governor to loan growth. If deposit trends demonstrate continued momentum similar to Q4, loan growth could exceed our mid-single digit target, especially given the strength within our Texas footprint. While we continue to invest in our markets and our people, we also feel strongly that investments in technology is what enhances the client experience and drives market share growth. We currently have implemented a number of new initiatives, and are scheduled for more in 2024, that will greatly improve the digital and mobile experience for our clients. We have also implemented measures on the back end of our business that create efficiencies. I've spoken previously about our continued use of robotics. In 2023, we were able to save over 6,500 hours through our process automation platform and reduce a substantial amount of risk to the company.

I'm very proud of our teams throughout our markets, and their unwavering commitment to the vision and strategy of Origin. As we move into 2024, I'm confident we will continue to leverage our corporate culture and geographic management model to profitably grow our markets and business lines. Now, I'll turn it over to Jim.

Jim Crotwell

Thanks Lance. As reflected on slide 13, I am pleased to report continued solid credit metrics for the quarter. Past Due Loans Held for investment came in at .34% at year-end, up seven basis points from the prior quarter end and continue to be well within acceptable levels. Classified Loans Held for Investment as a percentage of total loans held for investment came in at 1.05% as of year-end, up from .85% last quarter, and matches the level reported as of year-end 2022. Our current level of total classified loans also continues to be well within acceptable levels. I'm pleased to report this quarter, decreases in both Non-performing Loans as well as Net Charge-offs.

Non-performing Loans as a percentage of Loans Held for Investment ended the year at .39%, down from .42% while annualized Net Charge-offs totaled .10% for Q4 compared to .14% for the prior quarter. As we have shared in the past, we are relationship driven with credit underwriting focused on primary, secondary, and tertiary sources of repayment. This focus, particularly the focus on secondary and tertiary sources of repayment, paid dividends in the 4th quarter as evidenced by $1.9M in recoveries for the quarter, contributing to the reduction in net charge-offs.

For the quarter, our Allowance for Credit losses increased $1.7M to $96.9M; resulting in no change from the prior quarter of 1.26% as a percentage of total Loans Held for Investments. Net of Mortgage Warehouse, our reserve ratio increased slightly from 1.30% as of the prior quarter to 1.31% as of year- end. The stable level of our allowance mirrors our stable credit metrics. As to reserve levels and as discussed in previous quarters, we continue to balance our sound credit quality with continued economic headwinds.

On slide 14, we have updated the additional information on our CRE Office portfolio which continues its sound performance. As of year-end, this segment of our portfolio totaled $375.9M, with an average loan size of only $2.2M. The sound credit profile of this segment is evidenced by a weighted average debt service coverage of 1.47x as well as a weighted average loan to value of 59.4%. Past due loans totaled .32%, while this sector reflected no classifieds, no non-performing, and no charge-offs. In summary, our portfolio continues its sound performance, driven by our constant focus on relationship banking. I'll now turn it over to Wally.

Wally Wallace

Thanks Jim, and good morning everyone. Turning to the financial highlights, in Q4 we reported diluted earnings per share of $0.43. On an adjusted basis, Q4 EPS were $0.60 after excluding a $1.8M write-down of our MSR and a $4.6M loss on securities sold during the quarter. Starting with deposits, total deposits declined 1.5% during the quarter; however, as Lance mentioned earlier, deposits grew 1.3% linked quarter if you exclude brokered deposits. We continue to see a shift of non-interest bearing deposits into interest bearing accounts, though this trend continued to abate and was better than our expectations in Q4. Moving forward, we still forecast some continued pressure to our non-interest bearing deposit mix over the next couple of quarters. Ultimately, combined with some continued pricing pressures, our total deposit beta increased slightly to 50%, from 47% in Q3, 42% in Q2, and 35% in Q1. Pricing pressures are easing, but we do expect our beta will increase slightly over the next couple of quarters absent any change in the rate environment. Importantly, actions taken to reposition our securities portfolio late in Q3 and again late in Q4 drove a favorable shift in our earning asset mix and combined with loan pricing discipline to more than offset funding cost pressures, resulting in 5-bp of Net Interest Margin expansion during the quarter to 3.19%, essentially in line with our expectations. Moving forward, we anticipate Q1 NIM should be relatively flat at plus or minus 1-bp. Assuming a flat interest rate environment, we would expect expansion throughout the remainder of 2024, and at an increasing rate in the second half of the year due to elevated volumes of fixed rate loans repricing. That said, the current Fed dot plot calls for three 25-bp cuts during 2024 and the forward curve is pricing an expectation of five to six 25-bp cuts during 2024. As a reminder, we are asset sensitive. In our modeling, we assume the first 2-4 cuts will pressure NIM more than subsequent cuts, as we assume deposit betas will lag on the way down just as they lagged on the way up. As such, we assume the first 100-bp of cuts could result in 15-20 bp of NIM pressure in a static environment, weighted towards the first two 25-bp cuts. Notably, the previously mentioned fixed rate commercial loan repricing in the second half of 2024 should act as a relief valve to the aforementioned margin pressure should the Fed begin cutting rates. In an environment where the Fed is easing, we still expect we can run our business at a NIM above 3% with a longer term, full cycle target over 3.5%. As Drake and Lance discussed, we are very excited about the creation of our new Southeast market. This strategic investment positions us well from a growth standpoint as we continue our evolution into a mid-sized bank, and was very attractive financially. We estimate the new Southeast market will achieve breakeven within four quarters and payback in less than 2.5 years, assuming loans are funded with market deposits and cash on hand. Based on these metrics, we believe the upfront EPS impact is justifiable.

As outlined on slide 15 of today's investor presentation, we sold securities with a book value of $78.9M at a realized loss of $4.6M. We will use the proceeds of this transaction as cash on hand to fund the unfunded loan gap in the new Southeast market as well as for loan growth across our other markets. You can see on slide 15 a range of earn back, NIM, and EPS benefits for the securities trade depending on our ability to deploy proceeds from cash into loans and how long it takes, but at the midpoint of expectations we estimate a payback of 1.5 years, a NIM benefit of 4-bp and an annual EPS benefit of $0.09.Shifting to noninterest income, we reported $8.2M in Q4. Excluding the previously mentioned $1.8M write-down of our MSR and $4.6M loss on securities sold during the quarter, our adjusted noninterest income was $14.6M in Q4, down from $15.2M in Q3, which excluded a $10.1M gain on an investment write-up and a $7.2M loss on sale of securities. Expected seasonality in our insurance business was the primary driver of this decline. During the quarter, we decided to begin exploring the sale of our mortgage servicing business and recognized an impairment of $1.8M on the associated MSR to facilitate the planned sale of the asset. Our noninterest expense increased to $60.9M in Q4 from $58.7M in Q3. The quarter was impacted by $1.5M in expense, not in our expectations. These unexpected costs were related in large part to elevated healthcare self-insurance costs and our new Southeast market entry. While we remain laser-focused on managing our operating expense levels, we also believe we can operate from a position of strength and take advantage of opportunities that fit our long-term growth vision, like team liftouts. As such, we believe expense growth in 2024, including the impact of our new Southeast market, will be in the mid-single digit range compared to 2023.

Turning to capital, we note that our TCE ratio exceeded 9% in Q4, ending at 9.3% as favorable interest rate movement late in the quarter improved the loss position in our securities portfolio, combined with organic growth in Tangible Common Equity. Furthermore, as shown on slide 23 of our investor presentation, all of our regulatory capital levels, at both the bank and holding company levels, remain above levels considered well-capitalized even if we were to include our AOCI loss in the calculations. As such, we remain confident that we have the capital flexibility to take advantage of any potential future capital deployment opportunities to drive value for our shareholders. With that, I will now turn it back to Drake.

Drake Mills

Thanks Wally. I am passionate and excited about what we have built as a company and, more importantly, where we are going. I think about how we are positioned and the strategic investments we have made and will continue to make to grow our balance sheet and create scale. Our team doesn't just think about being a $10B bank, but 20, 30 billion, and beyond. Our investment in people is what gives me so much confidence. Hiring quality leaders like Wally Wallace as CFO to work alongside Steve Brolly, the addition of Derek McGee as Chief Legal Counsel and his network throughout Texas and the rest of the industry. The additions of our new Compliance Officer, Brandi Gregg and new Treasurer, Will Lankford, as well as Blair Diamond, our new Regulatory Liaison. These additions are to an already impressive team who have worked together for decades. As we are proving through investments in people, technology, lift-outs, acquisitions, and culture, our strategic plan is purposeful and focused on building long-term growth and profitability. The moves we made in 2023 and the initiatives that we continue to prioritize are all aimed at long-term profitable growth. We continue to build an incredibly talented team who operate in what we believe are some of the best, if not THE best markets in the United States. And… we invest in best-in-class technology to provide an unmatched customer experience. This is a business model built to last, and more importantly, one that is scalable as we look to continue our growth trajectory. Origin is on the offensive. Now we'll open the call for questions.

Evercall Moderator

Thank you team. Ladies and gentlemen, at this time we will conduct the question and answer session. If you would like to ask a question, please press *1 on your telephone keypad in order to enter the queue. Or if you've joined via web, please press the raise hand icon on the right side of your Deal Roadshow screen. Once more, that'll be *1 on your telephone keypad or the raise hand icon on the right side of your Deal Roadshow screen. We'll pause here briefly to allow questions to generate. Our first question comes from Matt from Stephens Inc. Your line is open.

Matt Olney (Stephens Inc.)

Hey, thanks. Good morning everybody.

Drake Mills

Good morning Matt.

Matt Olney (Stephens Inc.)

Well, I'd love to hear more about this expansion in the southeast markets. And the team that you hired, I think you mentioned two LPO's, eight lenders right now and support personnel, any more color on just how big of an opportunity this could be. And not just over the next year or two, but just longer term, what this looks like. And then within this team, what types of customers are they going to be focused on? And specifically, do you expect long growth to lead the positive growth for this team? Or will it move in tandem? Thanks.

Lance Hall

Yeah, thanks, Drake and hey, thanks, Matt. Good morning. Incredibly excited about this opportunity. As we think about the future, this gives us opportunities to diversify to grow. And specifically to do what we like to do, which is focused on CNI and operating companies. Had the honor to get connected to Nate Summer, get to build a relationship with him. Maybe in the next regions employee knowing the string that Compass had, in Alabama, we have a lot of Compass BBVA employees in Texas that always spoke incredibly highly of the old Compass BBVA, South Alabama team. And so getting to kind of understand and sort of rebuild some of that old team, we think it's going to be exciting for us. To kind of give you a frame of reference around what we think potential is in the long run. This team at Compass BBVA had $1B in loans and $1B in deposits. So from a long term perspective, we're really excited about that opportunity. They are vast, vast majority CNI with which fits our profile perfectly. We liked the demographic moves, you know, post COVID and work from home, you've seen tremendous growth in Baldwin County and some of these counties that they represent. And so as we work to build this out, I think it's going to be a dynamic opportunity for us to scale and create new relationships.

Drake Mills

Thanks, Matt. And good morning. Yeah, for us. We've, the last, I guess, couple of years, we've talked about low return growth opportunities. And we quietly have looked around from the standpoint of M&A opportunity in that market, because obviously, it's a little bit quicker path that way. But fortunately, we were introduced to this team, and they've come out of several different institutions. And I really categorize them as a very successful Compass BBVA team, if I look at it that way, and it just as we continue to be seeing our focus as we continue to stay kind of positioned as to keep our portfolio mixed, going in the same direction, these people fit our culture, our plans, our strategies perfectly. We weren't necessarily ready to do something like this. But it reminds me that, you know, tough times bring opportunities, and that's when we have to take advantage of them. So we hope that this is a springboard to other opportunities in these markets. But right now, we're going to focus on getting these people up, going into profitability, which is going to be key. I've often said, anything we do outside of leveraging our current infrastructure is going to take away from efficiency, we understand the impact to this decision. But ultimately, when you look at the footprint map, this is right in line with what our longer term expectations and strategies were. So I'm very pleased. And I will kind of turn it over to Lance to talk a little bit about, you know, their strategy, their type of customer and how they're focused. Lance was able to spend what I think is a tremendous amount of time with him creating relationships down the road, Lance.

Matt Olney (Stephens Inc.)

Okay, thanks for that. Lance, great color. And then on the long growth side, I think you're pointing us towards that mid-single digit number, but it sounds like that could be partially impacted by the success you have on the deposit growth front. Just help us appreciate that mid-single digit loan growth outlook and how much it adds from the legacy origin side. And then with the new team coming on, how much is how much is that influenced? The mid single digit loan growth guidance you provided.

Lance Hall

Yeah. So for us, right, it's we've been saying this consistently, the last three or four quarters, loan growth for us is completely governed by deposit growth. I feel more optimistic today than I have the last couple of quarters because of what we saw in Q4. We shrunk broker deposits purposely in Q4 so that we could make sure that we stayed under 10 V. But with that, we actually had core deposit growth in Q4. So I think conservatively, we're kind of thinking, you know, 4-7% on the deposit side, which would then therefore align what we're going to do on the loan side, but if we're able to can then continue the trend from Q4, we know we have loan growth upside because of the dynamic markets in Texas. You know, at this point, the vast majority of, sort of what we're budgeting and thinking through is sort of our legacy business. The mandate to our southeast partners is to self-fund and so you know, their initial push is going to be to help really grow deposits, with loans to follow.

Matt Olney (Stephens Inc.)

Okay, appreciate that, Lance, and then also want to ask Wally, I think I appreciate the guidance you gave around the margin more near term of flattish. It sounds like there's potential for expansion, a little bit of expansion beyond that. Due to that fixed rate loan repricing, I assume that was assuming flat rates. Because I guess the caveat that you put out was, if the Fed does cut, there'll be some pressure. So it did capture the upside scenario, the back half of the year on margin would be a flat rate scenario.

Wally Wallace

Yes, your question about the margin. We just got the front part of it.

Matt Olney (Stephens Inc.)

Okay, no problem. Well I was asking about the commentary you made on the prepared remarks about the margin trajectory for the rest of the year, kind of flattish, more near term. I got that part of it. But I think you mentioned the back half a year, the margin could have some upward support driven by the fixed rate loan pricing. I assume that was in a flat rate scenario, given your comments about if the Fed does cut you would be asset sensitive, but there'll be some pressure there, I just want to make sure I appreciate that the puts and takes around that.

Wally Wallace

Yeah. Thanks, Matt. Your assumption is correct. So the way we kind of think about what might happen if the Fed cuts you know, I said in the prepared remarks, we kind of assume, deposit betas will lag. So if you look at the repricing potential we have in the portfolio against the pressures that we would expect from a Fed regime it changes to be more hawkish, the expansion opportunity that we have in the second half, we assume and model would offset about four rate cuts. So the Fed cuts 4x we think our margin could be flattish to where it is right now. The cadence would be down a little bit if they cut if they started cutting early. But if they start cutting later in the year, that actually we've got so much so many ones repricing in the second half, we think that that would offset the pressures from Fed cuts. That help?

Matt Olney (Stephens Inc.)

That's helpful, Wally, and I'm sure embedded within some of your assumptions is something around deposit betas. And I hear your point as far as it lagging initially, from the first cut, but maybe beyond that. Any preliminary thoughts about deposit betas on the way down and this upcoming cycle?

Wally Wallace

Yeah, we think they'll lag in our model, we actually modeled a beta of zero for the first cut. And then a slightly better beta, the second and we kind of went to our historical betas the last time we saw a Fed cuts and model that when we get over 100, in cuts. In that environment, we would actually expect to see some margin recovery. But overall, you'd look at you know, one to two basis points of pressure in the, after the first 100. When we get tied up to what we would expect would be our cycle betas if you will.

Matt Olney (Stephens Inc.)

Yep. Okay. Okay, I'll step back in the queue. Thanks, guys.

Drake Mills

Thank you, Matt.

Evercall Moderator

Thank you, Matt. Our next question comes from Brady Gailey from KBW. Your line is open.

Brady Gailey (Keefe, Bruyette & Woods (KBW)

Thanks, morning, guys.

Drake Mills

Morning, Brady.

Brady Gailey (Keefe, Bruyette & Woods (KBW)

So I know with you guys crossing $10B this year in the past, we've talked about Durbin being a roughly $5M pretax number. Is that a number you all still feel good about?

Drake Mills

Yeah, with the recent changes that we saw, it probably ramps up to about $5.5M, maybe max $6M, and that'll start impacting this midpoint 25.

Brady Gailey (Keefe, Bruyette & Woods (KBW)

All right. And then I know it's probably embedded in your expense guidance of mid-single digit growth. But do you feel like most of the expenses have been already incurred to get you guys ready for this $10B cross? Or are there other expenses that you feel like, you know, are upcoming, as you guys think about this cross?

Drake Mills

Yeah, and you know, obviously, we've spent a lot of time with everything from gap analysis to talking to other institutions that have gone over $10B and, you know, I kind of give an analogy I'm driving 100 miles an hour in a rainstorm and the wipers aren't quite keeping up to understand exactly what additional expenses are. You know, I've got this gut feeling and there's nothing that's going to tell you that, you know, 60%, 70% of our expense of crossing we somewhat have behind us but you know, we are ramping up positions around compliance around audit especially around risk management, we understand working with, you know, some of our Fed examiners or regulators that some of the expectations are going to be around enterprise risk management and the pieces and parts I think we have a little bit to go but also realize that Day 1, we don't have to have those expenses in place.

I look at this as an opportunity over the next 18 - 24 months to feather those in. So I would say more than half of the expense of crossing in my world and this isn't anything that I can sit and look at data, because there's going to be some unexpected there's going to be some unknowns, but I feel pretty good that we're halfway plus there.

Brady Gailey (Keefe, Bruyette & Woods (KBW)

Okay, right then, you know, Drake, you guys have a pretty attractive insurance business. And you've been growing it organically, you've been grown it through acquisitions, there's been a lot of banks recently that have been, you know, selling their insurance, just given the valuations and using that gain to go off and do something else. It feels like you guys are still in building mode, but maybe just updated thoughts on how you think about the insurance business at Origin.

Drake Mills

Yeah, I'm pretty passionate about the insurance business, the teams we have, the ability to expand footprint, the reason we have not been as active as we have in the past is where you're looking at a hard market that's driving increased revenues, but yet we see a multiple that's been generated, that's higher than I would like to play in, so we're waiting for some of that to relieve itself. But we see, as we build non-interest income opportunities, insurance being a significant part of enhancing and growing that. We also liken recently, because of the sales that have gone on, started to prepare and look at the benefits outside of just revenue created. And what I mean by that is relationships that we have on the bank side because of the agency, book of business, and we see that continuing to enhance the referral process is very good.

So it's kind of hand in glove from growing this footprint, and building what I think is recognizable and very valuable non interest income. So you know, we could certainly look at it, we've looked at sales, what it would generate, what opportunities do we have with those funds at this point, we had a 10% growth in revenue last year. We saw that type of growth and profitability. So even with interest rates, where they are I still see this as a bigger win for investors, if we continue this business and stay focused on it for the next several years.

Brady Gailey (Keefe, Bruyette & Woods (KBW)

Yeah, that makes sense. Thanks for the call guys.

Drake Mills

Thank you, Brady

Evercall Moderator

Thank you, Brady. Our next question comes from Graham Dick from Piper Sandler. Your line is open.

Graham Dick (Piper Sandler)

Hey, guys, can you hear me?

Drake Mills

Hey, Graham. Good morning.

Graham Dick (Piper Sandler)

Sorry about that, morning, I just wanted to start with the southeast market you guys expanded into obviously. I know you said you're focused on profitability right now and making sure the team is fully integrated. As you look at this market, you know, longer term, how does- How does M&A play into the cards here? Is this sort of your new area of focus when it comes to building relationships with other banks that might want to partner up with you down the line? Or do you think you'll just continue to sort of build out around these teams and just see where it goes from there?

Drake Mills

With current conditions, and I think about when I think about M&A strategies, think about the regulatory front, I think about interest rate marks, I think about AOCI and the difficulty of the current valuation expectations from these partners. And where we currently are, we've got to create an opportunity to have a better currency than we do to get successful. So we've kind of gone back to the playbook on using teams and building off of teams. In my previous world, I've had more success, let's say from growing through team acquisitions, and not necessarily having M&A, and I'm excluding BTH from that. But you know, as we look at what partnerships, or what opportunities we have; the majority of that right now is in Texas, we have had some conversations in the southeast, and we will continue to build those relationships. But I do think for the next- and I'm going to say three to four quarters- we're going to focus on this team strategy versus, or see benefit from training to team strategy that we're going to see from M&A.

Graham Dick (Piper Sandler)

Okay, that's helpful. And then I guess, just going back to the NIM, and more specifically deposit beta. I know you guys are traditionally, you know, an asset sensitive name. But obviously, I think it's I think it's fair to say that deposit costs may be exceeded where we thought they would go, this cycle, just given what you guys have done in prior cycles. So I'm wondering, Wally, as you as you look at the NIM, next year, one, that historical divisor beta is at around 30%. And then I guess also to, do you think you might be able to outperform that similar to, I guess, the incremental pressure, that it saw on the way up, which is, you know, closer to 50%, now, thanks.

Wally Wallace

Thanks, Graham. Appreciate the question. Um, I think that we're trying to take a prudent approach to how we think about deposit betas. You know, historically, when you look at what happened in prior cycles, we didn't have Texas, and Texas is much more of a CNI market for us, and a lot of those deposits will float in our in our indexed, but they also come with more non-interest bearing deposits, so I agree with your statement, that the deposit beta was higher than we thought on the way up; but we are not going to assume that it will be higher than then we would expect on the way down, we're taking a much more conservative approach in our own modeling. And if you ask Matt, we're actually modeling a beta of zero for the first cut or two. And our modeling on the way down would suggest that the deposit in prior cycles, the betas were a little bit lower than they were on the way up.

Graham Dick (Piper Sandler)

Okay, thanks Matt. Then, I guess you mentioned it there. But on index deposits, do you guys have like a number of total index deposits to the bank that would move immediately with any change in rates?

Wally Wallace

I don't have the dollar amount for you. But you can look at our public funds and assume that the majority of those are indexed and the majority of what's remaining is not.

Graham Dick (Piper Sandler)

Okay, got it. All right. I appreciate it, guys. Thank you.

Drake Mills

Thank you, Graham

Evercall Moderator

Thank you, Graham. Once again, ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone keypad, or the raise hand icon on the right side of your Deal Roadshow screen. Once more, that will be * 1 on your telephone keypad or the raise hand icon on your Deal Roadshow screen. Our next question comes from Tim Mitchell from Raymond James. Tim, your line is open. Tim, please ensure your line is not muted.

Tim Mitchell (Raymond James)

Hey, guys.

Drake Mills

Good morning, Tim.

Tim Mitchell (Raymond James)

What's going on? So I just want to start counting on the bond sale and using that, those proceeds to fund loan growth in the New South Alabama Panhandle market, kind of how quickly do you think you can deploy that capital? And how sensitive would you're kind of EPS and II outlook that you outlined out on slide, be to, kind of that timeframe?

Wally Wallace

So thanks, Tim, good morning. We are it's that that those proceeds are going to find loan growth in the new market as well as our other markets. Obviously, Texas markets are fast growing markets, we think we can get it deployed, it doesn't take that long to deploy it. Because any new loan that's made, we can use those proceeds to fund; we don't have to pull any borrowings or pull any brokered deposits. So we actually think that it'll be weighted more towards the more positive outcome in the scenario outlined in the slide deck. And I apologize, what was the second part of your question?

Tim Mitchell (Raymond James)

Oh, no, that was, that was perfect. And then just kind of wanted to get your general update on credit. If any areas of concern have emerged over quarter you're seeing across here.

Drake Mills

Let me, I'm going to turn that over to Jim Crowell. Well, he is doing an awesome job with, I guess, positioning us. We've had a very aggressive approach to credit. And I'm very pleased with where the credit metrics ended '23 and the outlook for '24. So Jim?

Jim Crotwell

Tim, good morning. Now I feel really good about where we are, continued from a credit perspective, we're seeing civility through our credit metrics. One of the things you know, we did have a slight increase in our level of classifieds. But when you look a little bit deeper, I was pleased that our actual non-accrual levels decreased. And, you know, and that drove when we went through our reserve analysis, basically held that flat as a percentage to total loans. So, again, going back to the overall levels of, we're just seeing some good stabilization within our entire portfolio. We're not seeing any particular level of concentration or areas of concern within the portfolio. So...

Drake Mills

Tim, I'm going to throw in here, you know, credit is going to deny us some areas of concern, but as I've always been concerned, we're not seeing it, but I'm being concerned about office and retail, but still, those areas are holding up extremely well for us,

Tim Mitchell (Raymond James)

Yeah that makes sense. And then just one last one for me. You guys have talked in the past about kind of taking a more meaningful stake in Argent. Do you have any updated thoughts on that front?

Lance Hall

Yeah, Hey good morning, this is Lance. Yes, yes. Still our strategy, Argent had a large acquisition in the last half of last year, continue to grow profitability, grow EBITDA, we're very bullish on that business. The partnership that we have, are beginning to connect that more to our markets, is still our intention to increase our investment. And we hope the timing of that works out this year.

Tim Mitchell (Raymond James)

Perfect. Thanks for taking my questions, guys.

Drake Mills

Thank you, Tim.

Evercall Moderator

Thank you, Tim. It appears there are currently no further questions. Handing it back to the Origin team for any additional remarks.

Drake Mills

Thank each one of you for spending time with us this morning. I was recently asked why I seem to be as optimistic as I am. And, you know, my response took me back to think about and consider that during my career. We've experienced our strongest periods of growth coming out of downturns or industry stress. We positioned ourselves during each one of those to have strong credit metrics, good liquidity, and teams ready to go. We are in that exact position today, and it's odd to sit here and say we're on the offensive; we realize and recognize we have to be concerned about expenses. We've got to build revenues and do things to get through this interest rate environment, but we are only offensive, we have opportunities that include our geography that teams that we have deployed right ago that have significant experience. The CNI focus, our credit profile coming into this period of time is, is as good as we can consider it be, as excellent. Our deposit base continues to show that we have opportunities for growth. And then when you look at current opportunities in our footprint, it just puts together a very optimistic opportunity for us to stay focused, do the things that we know how to do. We have made several decisions this year that has impacted net earnings or earnings as a whole. And each one of those was to put us in a better position to be able to deploy capital, put these teams to work, and really take advantage of these opportunities. So as you can tell, I'm passionate, I'm optimistic, and it's really nice to be sitting here today on the offensive. I appreciate your time. I appreciate your interest in Origin Bank and Origin Bancorp and I thank you for your investment. Hope to see each one of you soon.

Evercall Moderator

This concludes today's call. Thank you and have a great day.